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**EXAMINING THE IMPACT OF CORRUPTION IN MALAYSIA USING
MACROECONOMIC VARIABLES**

By

SANTHI A/P M. SILVAM



(823307)

UUM
Universiti Utara Malaysia

Thesis Submitted to

School of Economics, Finance & Banking,

Universiti Utara Malaysia,

In Partial Fulfillment of the Requirement for the Master of Science (Finance)



**Pusat Pengajian Ekonomi,
Kewangan dan Perbankan**

SCHOOL OF ECONOMICS, FINANCE, AND BANKING

Universiti Utara Malaysia

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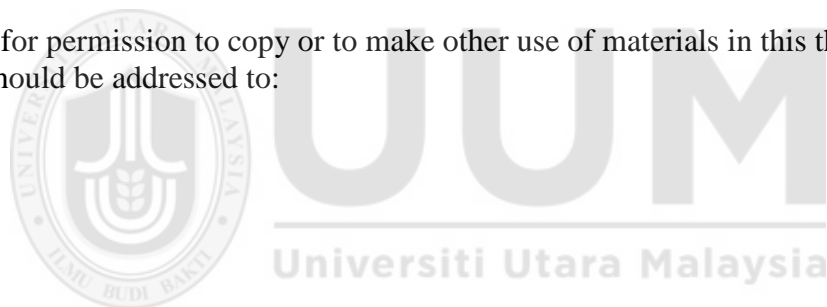
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ABSTRACT

Corruption is a serious issue faced by many countries. It can cause billion of losses in term of economic growth and development of a country. In Malaysia, many corruption cases have been reported which caused a decreased in GDP. Therefore, this study looks into the relationship between corruption and the macroeconomic variable in Malaysia and how transparency of corporate governance helps to reduce corruption. The data used for this study are from 2009 to 2018 with inflation, GDP growth and unemployment as the independent variable which affecting the corruption cases in Malaysia. Through this study, it is found that the corruption has affected the economy growth over the years. As for Malaysia, to become a developed country, the existing corruption cases should be investigated further and find solution. This is a step in preventing more corruption from occurring in the county. This study also recommend that the policymaker should take immediate action in amending the current policy by adapting a higher transparency element in all transactions and practices in both public and private sector as the corruption is detrimental to the country economic growth.

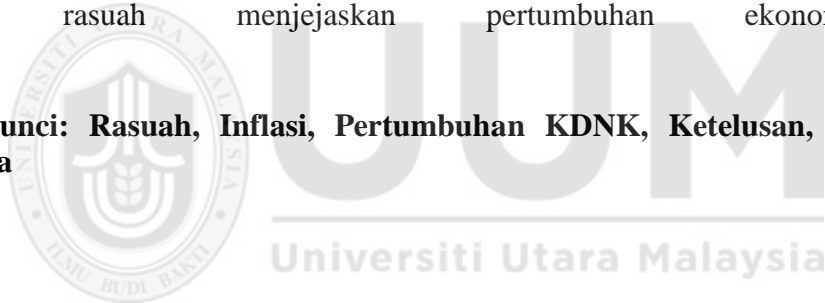
Keyword: Corruption, Inflation, GDP Growth, Unemployment, Transparency, Malaysia.



ABSTRAK

Rasuah adalah satu isu yang amat serius yang dihadapi oleh kebanyakan negara. Ia boleh menyebabkan kerugian yang besar dari segi pertumbuhan ekonomi dan pembangunan sesebuah negara. Di Malaysia, banyak kes rasuah telah dilaporkan yang menyebabkan penurunan KDNK. Oleh itu, kajian ini melihat hubungan antara rasuah dan pembolehubah makroekonomi di Malaysia dan bagaimana ketelusan tadbir urus korporat membantu mengurangkan rasuah. Data yang digunakan untuk kajian ini adalah dari 2009 hingga 2018 dengan inflasi, pertumbuhan KDNK dan pengangguran sebagai pembolehubah yang memberi kesan kepada kes-kes rasuah di Malaysia. Melalui kajian ini, didapati bahawa rasuah telah memberi kesan kepada pertumbuhan ekonomi selama bertahun-tahun. Bagi Malaysia, untuk menjadi negara maju, kes-kes rasuah yang sedia ada perlu disiasat lagi dan mencari penyelesaian. Ini adalah satu langkah untuk mencegah lebih banyak rasuah berlaku di negara ini. Kajian ini juga mencadangkan agar pembuat dasar perlu mengambil tindakan segera dalam meminda dasar semasa dengan menyesuaikan elemen ketelusan yang lebih tinggi dalam semua urusan niaga dan amalan dalam sektor awam dan swasta kerana rasuah menjejaskan pertumbuhan ekonomi negara.

Kata Kunci: Rasuah, Inflasi, Pertumbuhan KDNK, Ketelusan, Pengangguran, Malaysia



ACKNOWLEDGEMENT

I would like to express my deepest appreciation to my supervisor Prof. Madya Dr Zaemah Bt Zainuddin who has guided and supervise me through all her knowledge in completing this research. Without her guidance and support, this dissertation would not have been possible.

In addition, I would like to thank my husband Suresh A/L Kannaiah for being very understanding and support my studies. He been very helpful especially in taking care our both kids while I am concentrating to complete this research paper.

I am very grateful that helpful hands surround me, not only at home but at UUMKL as well. Dr. Ahmad Rizal Bin Mazlan, Deputy Director (Business Development) & University Lecturer who has helped me throughout in completing my Master Degree. The admin staffs of UUMKL are very kind and helpful especially Puan Nur Afifah Binti Abu Bakar. Throughout my studies here in UUMKL, many lecturers have been supportive, build me to be more knowledgeable and stronger. My heartiest gratitude to all of them. Finally, yet importantly, I humbly extend my thanks to all concerned person who co-operated with me in regards of this project paper.

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CHAPTER 1

1.0 Introduction

This is the era where every country is competing to be the best among the best in term of economy and productivity with the help of industrial revolution. Malaysia, which is an emerging country is also trying to be one of a fully developed nation in a few years. Therefore, Malaysia needs to set equal or higher standards as the least corrupted country and promoting transparency in the management of the country in order to be one well-developed nation.

A new beginning for Malaysia is to work on a new direction in order to achieve its goals after the change of government April last year. The new government is expected to change in the cabinet arrangements, management strategies and the execution of important issue in order to satisfy the individuals' desires and to remake and reestablish the country's glory, said Prime Minister Dr Mahathir Mohamad in the "Economic Outlook 2019" report, which the first report is presented under the Pakatan Harapan government. Hence, it is important to enhance and deepen the corporate governance of Malaysia.

Corporate governance is a set of rules and regulation which help directed and controlled an organization as it processes, and principle ensure all stakeholders gets the best interest. The Finance committee has given definition on the Corporate Governance. The definition in Corporate Governance Report (2002) "Corporate governance is the process and structure used to direct and manage the business and affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing

long term shareholder value, whilst taking account the interest of other stakeholders”.
Corporate governance important as it indicates good an organization is performing.

Governance of a country defined where power of management exercise of the economic.
In addition, it also defines the power on social resources. It is identified by The World that governance has three aspects, which are (1) the type of system; (2) the procedure by which expert is practiced in the administration of a nation's monetary and social assets for improvement; and (3) the limit of governments to configuration, figure and actualize strategies and release capacities (Thomas,2005).

The Corporate Governance consist of many good principles, which includes transparency and accountability. Malaysia has fulfilled all the principle in corporate governance to excel. The sector should now identify the principle, which need to improve to achieve the corporate governance standard globally.

The reason for having a good administration is to enhance the organization, reduce monetary, business and operational hazard, reinforce investor trust in the element, and aid the anticipation of false, untrustworthy and dishonest conduct (Armstrong, 2004a). A good administration additionally refers to the procedure on how well an association process through the appraisal of bearing and control, initiative, specialist, stewardship and responsibility. The basic of the gravity is undeniable given the ongoing perception that over 80% of the total population in a nation is living with "a serious corruption issues" (Transparency International 2016).

The new government took immediate action to investigate the corruption cases, which occur during the ruling or the prior party politics, led by Datuk Seri Najib Tun Razak. The new government has serious commitment in the institutional and societal reform. The efforts of the new government can be seen in the formation of many plan and task force including the 1MDB Special Task Force and the National Anti-Corruption Plan.

The former Prime Minister arrested and investigated by MACC for misusing IMBD fund. The corruption case of 1MDB needs no further explanation as the scandal involves more than USD 4.5 billion of assets misused through a progression of unpredictable and false organizations around the world. According to Satar (2018) the 1MDB scandal is a total absence of administration, straightforwardness, uprightness and accommodation to the standard of law during the rule of Datuk Seri Najib Razak.

Global Witness (2009) stated that the government under him described as kleptocracy. According to Kleptocracy Law and Legal, kleptocracy define a government with a corrupted leader. He uses his power to influence and expand his own wealth and abuse individuals and assets in his own region, which should be used for the betterment of the public. 1MDB scandal is an example where the national assets mainly the resources that belong to the people, which should be, use for the development for the people has been misused (Global Witness, 2009).

Datuk Seri Najib Tun Razak has been charged over 10 cases for breach of trust. Thus, this make him as the first Prime Minister of Malaysia to be charges with criminal cases. According to Hamid and Ariff (2015), Najib Razak admitted that MYR 2.6 bilion was

transferred to his account as a political “donation” after he been pressure by the opposite political party and public. Jain (2001) mentioned that for corruption to exist, it should support by power, financial rents and a legal framework.

Moreover, the wife of former Prime Minister, Datin Seri Rosmah Mansor, was also held at Malaysian Anti-Corruption Commission (MACC) for two corruption charges involving Rm5.5 million for a project to install solar power in schools in Sarawak in Year 2016. On the other hand, Datuk Seri Dr Ahmad Zahid Hamidi, the former deputy prime minister also arrested by MACC for abuse power, breach of trust and money laundering of a foundation.

Datuk Seri Tengku Adnan Tengku Mansor, former minister of Federal Territories also faced corruption charges for receiving bribes amounting to RM3 million. In addition, the chairperson of Tabung Haji, Datuk Seri Abdul Azeez Abdul Rahim also remanded for a corruption case during the same year. These cases indicate Malaysia need to have a good governance especially in public service. A more transparency rules help to prevent the corruption case to increase in coming years. Martinov-Bennie (2007) defined the institutional fraud as the dishonest action to increase the illegal benefits.

The governance function is to provide a control mechanism as a support for an organization to achieve its goal and objectives. Thus, this will prevent unwanted conflicts to occur in the organization. The main pillars of corporate governance are ethical behavior, sustainable, accountability and transparency. The organization which adapt and practice the corporate governance principles are likely to have long term value and chance to sustain in the market for a long time.

Therefore, the government must comply with corporate governance elements of transparency to reduce the corruption rate to compete and achieve higher standard to be a developed country. This paper examining the impact of the corruption of the country towards the macroeconomic variables in Malaysia.

1.1 Background of the study

Table 1.1 Corporate Governance Reform

Year	Corporate Governance Reform
2000	Security Commission release Code of Corporate Governance
2007	Revision of Year 2000 code Strengthen the board of directors as well as audit committees i) Role of nomination committee, audit committee and criteria for appointments of directors. ii)
2011	Corporate Governance Blueprint 2011 i) Enhance rights of shareholder, role of institutional investors and role of board ii) Improve on the disclosure, transparency , role of gatekeepers and influencers and public.
2012	i) Principles on the structures and processes of companies' board
2016	i) independent director's tenure more than 9 years and requirement 30% women directors on their boards
2017	i) application on practice of new code CARE – Comprehend, Apply and Report Approach. ii) Shift from “comply or explain” or “apply or explain an alternative”

Source : Liew et. Al (2017)

The MCCG 2012 code has introduced the transparency element in governance practice. This code required the board of an organization to disclose the information on the named basis of the remuneration received by directors. Nevertheless, this code only applied to the senior management who receive any kind of emolument within the band of MYR50,000. This emolument includes fees, salary, bonus, benefits-in-kind and other emoluments.

The latest MCCG 2017 is the fourth version of reviews which derived with the inputs given by internal and external stake holders after considering the corporate governance failures and any changes needed in the market as well as business. This code is best practices which aims to ensure a greater promotion to internationalization of corporate governance.

According to MCCG 2017 report, a good governance ensures the organization to have longer sustainability in the market. Thus, the management of every organization has responsibility to understand and adopt the corporate governance key principle such as transparency to reduce the organization risk, corruption and mismanagement.

In addition to this, the amendment in Companies Act 2016 has required the benefits payable to director is approved by the shareholders in the general meeting. This rule is an additional requirement for the transparency of the board of directors. Currently the MCCG code only applicable for listed companies. This code is encouraged to be practice by other non-listed companies including state-owned enterprise, small medium enterprise and licensed intermediaries.

During the year 2017 to 2018, Malaysia recorded an increase of corruption cases among the other countries. Thus, the new government has developed The National Anti-

Corruption Plan (NACP) for Year 2017 and 2018. The NACP is as an anti-corruption policy reflects the people expectations to reduce the corruption rate in the country.

Omar, Said & Johari (2016) study on the Corporate Crimes in Malaysia reveals that the higher management, mainly directors commit misconduct. The higher management is an example for the lower management and the trustworthy of the shareholders of the companies. The higher management has more authority and power to make any decision pertaining the company's objectives. Hence, there are higher chance of committing unethical act of bribery for personal gain.

The expectation on Malaysia is to be a corrupt-free country where it promotes transparency, and other good elements like accountability and integrity in Malaysia. Transparency disclose accurate and time information on accounting. It also enables the organization to balance among all stake holders in financial reporting, includes board, management and the auditors. Furthermore, with a better transparency, any misuse of power or fraud activities may be identified at early stage of a project or work and it can be eliminate. This will ensure the projects completed with lower provision as it is more transparent. Continuously, the public sector may use the extra fund available for other beneficial projects for the people's benefits.

Finance Minister Lim Guan Eng in a conference named 'A New Dawn' affirmed that the government would shift from cash-basis accounting system to accrual accounting standard by 2021. It is a part of a wider move to improve the transparency in the public sector. Malaysian Institute of Corporate Governance was established in Year 1998. This is an

organization to promote and encourage the corporate governance development and provide adequate training for individuals or institutions in Malaysia.

Beeks and Brown (2006) explain that the corporation with a better corporate governance has disclose more information's vice versa and those with poor governance practice are lack in financial disclosure as well as transparency. Focusing on transparency helps the country improve on the GDP growth.

The current MCCG code still needs to be improve as some authorities find way to misuse the existing rules for illegal action. Example is the remuneration received by the board members of Khazanah Nasional Bhd remains opaque. The Khazanah Report 2017 page 10 claims, "Khazanah upholds rigorous standards of transparency..." On the other hand, it disclosed of total remuneration of directors and key management personnel, which was amounted to RM38.4 million. Information regarding the number of individuals and their name who receive the remuneration not reported.

The code should improve by specifying that the receiver name and amount should reported so that the report will be more transparent. Furthermore, any remuneration received by the individual should reported for tax purpose. The guidelines specified by the MCCG lightly taken as it is only encourages disclosing the details of the executive director's remuneration and not making it mandatory. The code states that 'organizations are urged to disclose the remuneration details of every individual of senior management on a named basis'. Through a more transparent and clearer code of Corporate Governance practice, the authorities may not misuse the practices to gain secretly.

1.2 Problem Statement

Corporate governance, a system where good relationship among the stakeholders provide positive contribution for a long-term goal of an organization. The objective of a country corporate governance is to enhance the value and protect stakeholders by improving the performance. Poor governance lead to arbitrary policy, unaccountable organization, unfair legal system, maltreatment of power, common society unengaged in public life and widespread of corruptions.

self-assertive approach making, untouchable organizations, unenforced or out of line legitimate framework, the maltreatment of official power, a common society unengaged in open life as wells as far reaching of defilements.

Malaysia ranked at 62nd place in the Transparency International Corruption Perception Index (CPI) in the 2017 and at 61st place in 2018. This is the lowest ranking obtain by Malaysia for past 5 years. Apparently, corruption decrease the performance of a country. Hence, the country economic are also affected. The wrong macroeconomic approaches pursued to fund high public expenditures, which cause the more budget and current account deficits and trigger inflation. Mitchell (1998) stated that policy maker should enforce a transparency while implementing policies to stabilize the economy.

Transparency International Malaysia (TIM) estimated that the country lost nearly MYR46.9 billion in the Year 2017 due to the high rate of corruption in the public sector only. This amount is higher than the collection of goods and service tax (GST) which is RM44 billion. If this amount could save with the government, many projects can complete

to improve facilities for the people. Example many more house under 1Malaysia People's Housing Scheme (PRIMA) could built to offer to the people affordable priced property.

Corruption does not come free especially in the public sector, as all the ordinary citizens must pay the price. The corruption can entrench the entire nation, slow down the country's growth and foreign investors will not invest in the country. The adverse impacts of corruption entrenched the nation, with implications on the economic development, trade, foreign investments and the government's coffers as well. The corruption rate is hard to measure because many corruption cases unreported.

Moreover, this corruption will lower the competitiveness of the country, resulting in inequality, and distort the market mechanism where the resources available misallocate and rise the economic inefficiency. The living standard of the people will remain and there will be inequality between the poor and rich. For example, the unavailability of transparency in open tender system enable some individual to misuse the power and responsibility to make secret profit for self. In consequences, the taxpayer should bear the higher costs.

The chief executive officer of Institute for Democracy and Economic Affairs Ali Salman said that public sector in Malaysia is likely to pay far more for the value of goods and services purchased over the years. AmBank Group chief economist Anthony Dass explain that to reduce the public debt, an alternative area should emphasis on the way to reduce inefficiency under 'supply and service' by re-examining though a higher level of transparency. Furthermore, Mr Anthony stated that to lessen the monetary and open

obligation, a region should see how to diminish the wastefulness under 'provisions and administration' by rethinking however a more prominent degree of straightforwardness.

The Government Linked Companies (GLC) are those companies owned by government, mostly suppliers of the strategic utilities and service of the country. According to Secretariat Putrajaya Committee on GLC High Performance Year 2015, GLC has a huge influence and a major contributor to the economic growth in Malaysia and made billion worth domestic investment and open a huge job opportunity for the unemployed. It is reported domestic investment reached more than MYR153.9 billion and job opportunity of more than 225,000 Malaysian in Year 2014.

Gomez et al. (2017) research in 2013 about government involvement in the economy of the country found that at least 35 organization linked with government have an account about 42% of the market capitalization. Moreover, the study shows that the government connected to 35 GLCs which comprise of more than 68,000 companies.

The Government-Linked Companies (GLCs) corruption level has increased in Malaysia for the past years. Among the GLCs are Felda Global Ventures Holding Bhd, Lembaga Tabung Haji. MACC investigated the former CEO of Tabung Haji, Datuk Nor Badli Munawir Mohamad Alis Lafti for corruption and misappropriate of projects worth RM50 million. This matter is viewed very seriously as Tabung Haji is one of the organizations has taken steps to enhance corporate governance and good business practices measure in its operations.

On the other hand, on the same year MACC reported has filed a civil forfeiture suits against 41 individuals who related to 1MDB corruption amounted RM270 million. MACC also investigate Felda Global Ventures Holding Bhd and Felda Investment Corporation Sdn Bhd (FIC). FIC reported owned a four-star hotel which situated in London for about RM330 million, which is far above the original price. This purchase has results losses of millions of ringgits. Another alleged is FIC paid RM40 to RM50 millions above actual market value to purchase Kuching Hotel.

The problem of corporate governance in Malaysia is very severe and immediate and effective resolution should take to prevent further negative impacts on the country. This study focuses on whether the country's economy affected by the corruption rate and how transparency of corporate governance can help to control the corruption and improve the economy.

1.3 Research Questions

- i) What is the relationship between the corruption macroeconomic factor in Malaysia from the year 2009 to 2018?
- i) Which macroeconomic factors are affected by the movement of the corruption rate from the year 2009 to 2018?

1.4 Research Objectives

This study conducted to enable to identify the the relationship of corruption and macroeconomic variable in Malaysia. According to Hifzainam (2014), a good governance

helps to promote the maintenance of a country's economic development through performance, increase the access for the investor, and finance institution. Hence, the objective of the study is -

- i) To analyse relationship between corruption rate in Malaysia and the macroeconomic factor from the year 2009 to 2018.
- ii) To identify which macroeconomic factors are affected by the movement of the corruption perception index from the year 2009 to 2018

Scope and Limitation of the Study

This study focusses on the effect of corruption on the macroeconomic factors of Malaysia. This study helps to identify whether the corruption directly affect the country's macroeconomic negatively or positively for past ten years. In addition, this study also identifies the variables, which has significant changes when the corruption increases or decrease. By identifying this, the policy maker of the country may consider in changing rules to bring a higher level of transparency in corporate governance currently been practiced to not only reduce the corruption rate but also to avoid the economy of the country to fall further.

Hence, the economy will improve, and the country may develop much faster as it has loss many years of good development through this corruption in the past years. Data for this study collected from two sources. The corruption perceptions index (CPI) from Transparency International website for Year 2009 to 2018. On the other hand, data of macroeconomic variables for Year 2009 to 2018 collected from the World Bank website

and corruption rate for ten years from Year 2009 to 2018 based by Transparency International.

1.5 Organization of the Study

This Project Paper consist of 5 Chapters. Chapter 1 explain on the overview paper, study background, definition and importance of this study. While chapter 2 contains the critical review of literature and theories of the topic of the paper. Chapter 3 is about the methodology of the study where this chapter discuss the methods of Research Framework of the project paper. In addition, discussion in this chapter 4 consist the result and findings of this study. The last chapter, which is Chapter 5, consist of the summary based on the research objectives. Recommendation for future study also covered in this chapter.



CHAPTER 2

2.0 Introduction

This chapter study about the critical review of literature and theories of the topic of the paper. This chapter as a base of analytical of the paper. It also related to this study and as a guide of the paper development.

2.1 Overview of Corporate Governance

The Corporate Governance defines as a set of rules and regulation, which helps a corporation to directed to achieve its aim. Moreover, corporate governance is a system where its structure considered all the stakeholders rights. Through Corporate Governance, the corporation objectives are more achievable as it has control and monitoring elements. Literature enlightens institutions as “a set of rules and regulations, procedures and ethical and moral behavioral norms which are shaped to restrict the actions of individuals to maximize utility of principals” (North, 1981 P. 201).

However, the study includes variables investment such as GDP ratio, weakens or illiminate elements like political stability and human capital negatively significant. Based on Meon and Sekkat (2005) impact of corruption towards the economic growth depends more on institutional quality.

In contrast, the corruption positively changes the macroeconomic variable when institutional quality is poor. Meon and Weill (2010) stress that the theory of the effect of corruption by studying the relationship of institutional quality, corruption and production

efficiency, thereby the theory that corruption may have a positive effect on economic activities. Mushfiq (2011) shows that the corruption increases the growth even, he found this when tests the corruption-growth relationship in a non-linear framework.

Aghion et al. (2016) show that corruption affects the marginal effect of taxation on growth and conclude that the interactions of corruption with military spending and investment negatively affect economic growth. Hence, these studies shown that corruption has either positive of negative relation on macroeconomic variable. However, one must ask what the further step to reduce the corruption is and how to improve on the macroeconomic variable even when there is a positive result in the study.

According to Bank Negara Malaysia quarterly bulletin for 2018, Consumer Sentiment Index had consistently remained below the optimism threshold past years, from Year 2014 to 2017. This is the longest period that it was below the optimism threshold. When the price of consumer price increase indicated that, the people prefer to buy basic goods to luxury goods. This will result in decrease of imported goods, which will lead the reduction of the country trade volume as well. Overall, the higher corruption in a country will distort the country's import and exports.

The MICG Report in the Year 2017 emphasis mainly on their elements, which are the anti-corruption, organizational transparency and sustainability. Global Corruption Barometer Survey found that investors have perceived on the high level of corruption in the country. Khanna & Zyla (2010) show that a good company performance lead to ability to make the profit. It will attract more investors to invest in the company.

This study focusses on the transparency element where the main elements of Corporate Governance. Previous studies and reports have been analysis to support the topic and to derive with a solution and recommendation on the area where it can improve on through Corporate Governance for the betterment and development of the country.

2.1.1 Corruption

Corruption is an issue, which exist with human existence. Nye (1967) define corruption as abuse of public power for personal interest. This definition acceptable and agreed to follow by top anti-corruption organization, Transparency International and World Bank. Global financial institution such as the World Bank has spent significant time and attention on studying corruption as it has dominant effect on a country economic development in past few decades. Economist and researchers still studying on the corruption effect over the development even the number of literatures increasing on the study of relationship between corruption and economy.

The corruption is one of the world's important issue. According to United Nations Secretary-General Antonio Guterres in Anti-Corruption Day 2018, the international corruption annual cost amount about 3.6 trillion US dollar in form of bribes and stolen money. In Malaysia, Malaysian Anti-Corruption Commission (MACC) reported 156 cases of bribery detected from year 2015 to 2018. The total amount for all these unsure as some of the cases are still under investigation.

The Malaysian Anti-Corruption Commission (MACC) set up in Year 1967. This commission fighting corruption on the agenda of the government since 2003. Many

initiatives and strategies implement for past fifteen years. The latest amendment MACC published in year 2018. The MACC Amendment Act 2018 introduces section 17A, which provides commercial organization be deemed to commit any offence related if any individual related with the business association offers, consent to give, guarantees or offers any satisfaction to obtain or retain business advantages.

Hence, Commercial organization that commits offence under Section 17A can be liable for a fine of not less than 10 times of the sum or value of gratification of the subject matter of the offence. The gratification is valued or of a pecuniary nature then a fine of 1 million ringgit whichever higher or imprisonment not exceeding 20 years, or both.

Malaysia corruption rate remained high and even recorded the highest for the past few years. Malaysia has elaborated good framework of governance. Thus, the corruption should be controlled and reduced in coming years.

Malaysian law gives protection for the whistle-blowers against retaliatory action of disclosure. However, the whistle blower only protected from disclosure of improper conduct. He cannot rely to get protection to escape liability is himself involved in the improper conduct i.e. bribery transaction.

There are many studies on the corruption but less literature on the effects of macroeconomic variable. Corruption happen when rich people use their money to buy power. Andving et al. (2000) this phenomenal seen as a structural problem in the politics world or economics techniques, or as a cultural issue or people's moral problem. According

to Kaufmann and Gray (1998) found that Bribery increases transaction costs and creates insecurity in the economy.

In contrast, Leff (1964) shows that corruption does enhance efficiency of the economy. Li and Wu (2010) study the puzzle of some countries where experience high growth in economic despite corruption. Furthermore, even a country has high corruption rate, trust mitigates has negative effect on the economic growth. The corruption forces the government to promote the economic activities to attract investor to invest in other possible because the investor concern on the corruption rate before investing.

Blackburn, Bose & Haque (2005) relation of corruption and development may push some countries into a 'bad' equilibrium where it has high corruption and low growth while others may converge as a 'good' equilibrium with low corruption and high growth. The higher level of income may motivate a greater willingness to combat the corruption.

Mauro (1997 and 1997) finds that the corruption may lead to decrease in an economic growth and decrease the investment rate. Rock et al (2004) explains Asian paradox in his research. The author examines the relationship of corruption and growth in economic using four corruption datasets. He found that the impact of the corruption slows down the economic growth and reduce the investment of developing countries but increases the investment in large East Asian newly industrializing economies.

Similarly, Littvay and Donica (2006) found there is no relationship of corruption and economic growth in non-Asian countries but has found a relationship of Asian countries for the period 1986 to 2003.

2.1.2 Inflation

High inflation not only reduce the income of the citizen of the country but also increase the uncertainty of the country economy. This inflation eventually reduces the purchasing power of the people and cause more corruption for the people to make extra incomes to support their daily lives. Tosun (2002) found inflation affects the power of purchasing of individuals and groups affects negatively by lower level of the real wage. However, individuals still need to fulfil their needs although the purchasing power decrease.

Along with this, inflation reduce the real incomes of the employee-causing imbalance of distribution of income. Gupta et al (1998) imbalance of distribution in income naturally stimulates corruption act. Mauro (1995) corruption had adverse effects on economic development, investments and the structure of the official institutions. Aidt et al. (2008) corruption negatively affects the economic development in countries with much high institutional quality, whereas corruption does not have any impact on the economic growth in countries with low institutional quality.

During 14th general election recently recorded about 84% of voters, turn out to vote, highest in Malaysia election history. This is continuance of majority unhappy citizens on the ruling party Barisan Nasional past years. The people decided it is time to make changes in the ruling party of the nation to prevent the country corrupted more and effect the development of the country.

David et al. (2005) there is relationship among inflation and growth in the long run and also in the short run. Corruption increase the costs, to cover this cost a borrowing applied

where it turns in increasing the inflation rates and also risk level of a country. Piplica (2011) study, which focused on 10 transition economies in Central and Eastern Europe, revealed that corruption increased inflation. The literature on the corruption suggest there is a significant positive relationship between the corruption and inflation of a country. Some studies argue that inflation causes corruption but some study on corruption leads to inflation. Braun and Di Tella (2004) the increase of the rate in inflation has caused a positive relationship and statistically significant effect on the corruption.

On the other hand, Paldam (2002) found that inflation could affect corruption in short period like five to ten years; it increases inflation and raise in corruption. Moreover, Tosun (2002) analyzed the economic factor and found there was a significantly positive relationship among inflation and corruption. Al-Marhubi (2002) provides contribution to the literature on relationship between the variables of corruption and inflation, claims that the corruption increases the inflation. In his, study 41 countries inflation values for fifteen years. Similiarly, Samimi et al. (2012) concluded that corruption increased the prices. Hence, there is a positive relationship between inflation and corruption according to the previous study by many researchers.

Furthermore, increase in corruption increase the public expenditure. The government carry out more of the public expenditure, which cannot be effectively, finally appeal for more fund and lead to inflation. A-Marhubi (2000), Celen (2007) increase in corruption makes public income decrease where capital stocks flow out to other countries; the resources that taxed reduce, and therefore tax income decrease. This lead to increase in public expenditure, in the economies in which corruption is widespread. Thus, the governments

carry out more public expenditure, and cannot used effectively and pursuant. Finally government appeal more monetizing and all of these can result in inflation.

2.1.3 Gross Domestic Product

(GDP) measure the national income and expenses of the country economy. GDP is total expenditures for the final good and product for a period. Robin et al (2018) GDP used to evaluate the total economy activities. According to Transparency International Malaysia lost about four percent of GDP annually since Year 2013 due to corruption. From previous studies of Shabbir and Anwar (2007), Damania et al (2004) and Persson et al (2003) among who conclude that the level of development of a country has a negative relationship with the level of corruption.

Lambsdorff (2007) corruption cause low growth so the causality is mainly from corruption to the GDP. Paldam (2001) corruption is a poverty driven disease that vanishes when countries develop, so that the causality is mainly from the level of GDP to corruption. Brown and Shackman (2007) find evidence that shows that the causality is present in both directions. There is still argument whether higher corruption lead to a much lower growth rate or the lower economic growth, which lead to corruption. No conclusion has reached regarding the direction between these variables.

In contrast, research prove that there is no correlation between corruption and GDP. Aidt et al (2008) find in countries where the quality of quality institutions low, corruption has no impact on the growth. Moreover, Heckelman and Powell (2008) found that corruption

enhance economic freedom is most limited, but also beneficial impact of corruption has decreases as economic freedom increase.

Mauro (1995) found that corruption affect the economy through reduction in private investment and altering the government expenditure, especifically by lower the share of spending and education. Other researchers later supported this founding. Podobnik (2008) reported corruption is detrimental for economic growth. Wei (2000) also found that countries, which has high rate of corruption, is detrimental for economic growth.

Shleifer and Vishny (1993) investigated if corruption lead to inequality and poverty through negative influence on the economic growth of a country. The research was focus on Russia, Philippines and Africa. The authors found that corruption has adverse effects on the economic growth. Further, Davoodi (2002) shows higher growth associated with a lower rate of corruption. Author has further studied to find the value of the effects.

On the other hand, there are studies on positive correlation between corruption and GDP. The studies discussed the Asia Pacific zone but the negative relationship among those variables are much stronger. The growth rate diverges more with high-level corruption countries.

Moreover, in research of 10 Asian countries (China, Indonesia, Japan, South Korea, Malaysia, Philippine, Singapore, Taiwan, Thailand and Vietnam) from year 1995 to 2010 Huang (2012) found the corruption significantly positive with economic growth, where it indicates economic growth increase with the corruption rate.

Rock and Bonnett (2004) corruption in the large East Asian newly industrialized economies (i.e. China, Indonesia, Korea, Thailand and Japan) significantly promotes the economic growth. It found the significant positive impact on GDP growth largely in Asian countries affected by corruption. This might be because of centralized government limit the negative effects of the bribery compared to decentralized corrupted bureaucracy. Barretto (2001) significantly positive and direct relationship between GDP and corruption.

A modest number of published papers are available relate time interaction between the level of corruption and GDP. Paldam and Gundlach (2008) suggest that long-run causality is from GDP to corruption level, as a country gets richer corruption vanished; they find long-run interaction, but only in one direction. The research observed for a period from year 1994 to 2006. Continously, Pulok (2010) found that relationship between corruption and GDP in the long-run for the period 1984-2008. This concludes corruption directly has a negative impact on GDP.

Lui (1996) found corruption has two effects, positive level (short-term) effect on allocative efficiency and a negative effect on the economies long-term growth rate. However, Piplica and Covo (2011) shows corruption impact on economic growth takes place without a significant period. In this study, data of ten years analyst from year 2009 to 2018.

2.1.4 Unemployment

Unemployment rate refers to the number of individuals unemployed in a country. The labor force includes the unemployed individuals who looking for a job. The definitions do not include those who do not look for job, children's and the retired. Paradoxically, the low

unemployment rates relate to poverty in a country vice versa higher unemployment rates occur with high level of economy and low rates of poverty.

In addition, unemployment rate function as a key measurement to monitor a country's Sustainable Development goal on promoting sustainable of economic growth and productive employment. The methods and calculation of employment differs from one country to another. Some countries include the insured unemployed only and some take into count the disabled-on welfare. Thus, this rate is adjustable to avoid any variation, which depends on time of year.

The unemployment rate is always does not decline, as there are always people who move between different sectors of the economy or between cities. Unemployment occur when there is supply more than demand of labor in a period. Bakare (2011) shows corruption and unemployment often the most pressing policy and issues facing by many developing economies in the world. The corruption reduces quality of public investment, which will eventually lead to reduction in growth of macroeconomic including unemployment.

Consequently, the increasing in unemployment then will affect economic instability which increase the illegal activities where result in increasing corruption practices. Moreover, World Bank (2012) reported the effect on corruption and unemployment is indirect, where reduced public investment quality and results in much lower growth and income. Hence, it turns impedes the job creation in the end. Chude and Chude (2013) a productive public spending will lead to low-level unemployment rate in a country.

The public fund of corrupted countries with high corruption rate used unproductively will increase in unemployment. Example quoting higher price for a project and pay lesser than allocated to the labor to gain personal benefits of the project manager. In this study, ten-year data from 2009 to 2018 of unemployment rate of Malaysia has been analysed to identify whether the higher unemployment rate in country like Malaysia affected due to high corruption in the country.



CHAPTER 3

3.0 Introduction

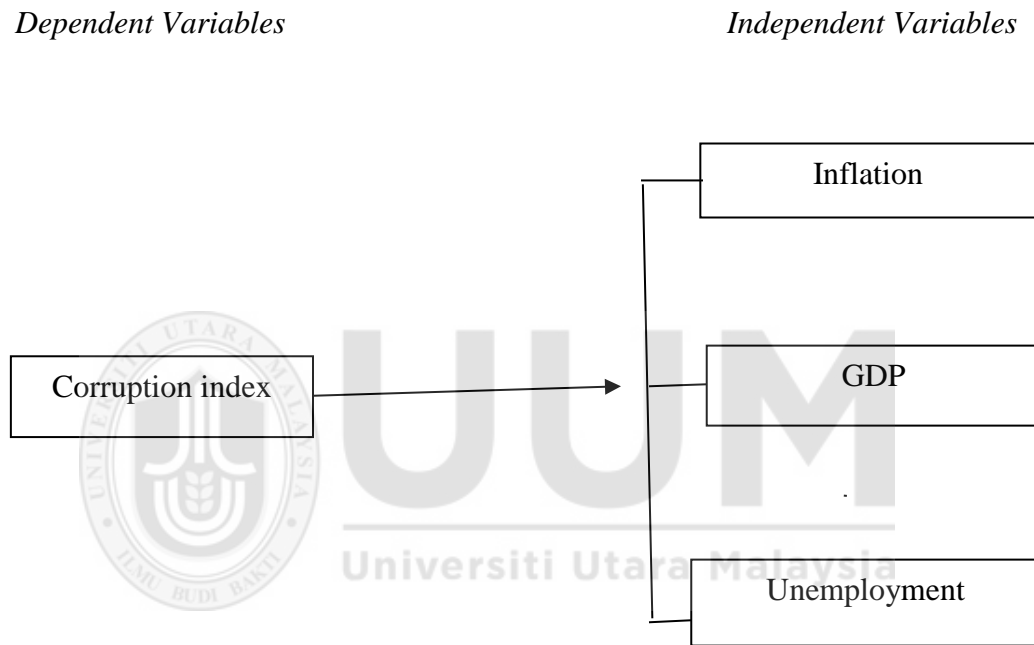
This chapter explain details of the techniques, which used to gather data and identify the information related to this study. This study is being analyses using quantitative research method by employing secondary data. In addition, the data collected from World Bank website consist of 10 years from year 2009 to 2018. Moreover, the details how the data is process and analyze to obtain the result and to identify whether the research objective has achieved.

The sample data of this study on economy is from World Development Indicators of World Bank. World Bank is the world's largest development institution where it worked and still working to help more than 100 developing countries by offering fund and knowledge. It also collects data of development indicators compiled from officially recognized international source. The data of GDP not at optimal measure, as it does not include all the aspects that effect the economy, e.g. the environmental aspects. However, GDP is most commonly used measurements and it considered as the best economic measurement. For this study, the GDP is the optimal measurement.

The data collected is only for one country, Malaysia. On the other hand, the data for corruption is from Transparency International (TI). TI is a non-government organization, annually published the CPI of countries. There is limitation for the corruption data. The CPI does not measure corruption, but the index measure perception of corruption. CPI also does not measure the corruption by business that pay bribes in order to make profit at cost

of consumers. Despite to this, the CPI is still widely used to measure the corruption of a country.

3.1 Research Framework



3.1.1 Corruption

According to Malaysian Anti-Corruption Commission (MACC) the corruption is an act of giving or receiving of any form of gratification or reward whether in the form of cash or in-kind of any high value to perform a task in relation to job description. Example, a contractor gives gift of expensive car to a government officer to reward for a project belongs to the contractor.

Corruption is a treat for the sustainable of economic development of a country. In addition, it also negatively affects the ethical values and justice. The World Bank corruption index based on how corrupted a country. The score on scale of zero where (highly corrupted) to 100 (very clean). Transparency International (TI) an organization formed dedicated in fighting the corruption. The website <https://www.transparency.org> of TI contain reliable information about the corruption around the world. CPI is most important publication by TI and it has published annually. TI publish data about corruption in every country for free in this website

3.1.2 Macroeconomic Variables

The economics divided into macroeconomics and microeconomics. In this study, macroeconomic analyst to support the objective of this study. Macroeconomic is a study and its function to examine the movement and trend of the economy element such as inflation, economy growth, money supply, gross domestic products, unemployment and others.

For this study, three macroeconomic is focus to analyst the effect of the corruption. The variables are inflation, gross domestic product and unemployment rate. These variables are analyst for this study as this are the important decision-making elements for the investors before investing in a country. Macroeconomic evaluate the economy growth and development to compare with other country economy or within a period. The effect of corruption towards the macroeconomic variables is analyst in this study to identify the relationship within both elements.

3.1.2.1 Inflation

Inflation is an important macroeconomic concept. Inflation is a condition whether there is increase in general price of goods and services in a country's economy in a period. The measure of inflation is the inflation rate; it is the annualized change in general price, which measured in percentage. As the inflation increase, the money buys lesser goods and services. In addition, it will reduce the standard of living and increase the cost of living of every citizen of the country over a period. Ibrahim and Agbaje (2013), inflation fluctuate and create uncertainty in any economy.

3.1.2.2 Gross Domestic Product

Gross domestic product (GDP) is a type of monetary measure of market value of final goods and services, which produced over a period. GDP used to evaluate the total economy activities in macroeconomic level. It is also as an indicator reflecting the bank loan or debt. The GDP, an independent variable study. In this study, it expected to have a positive relationship with corruption index. Agrawal and Agarawal (2013) a higher level of GDP will increase the confidence of foreign investors and raise the rating of the economy as an investment focus. In a corrupted country, small business usually tends to avoid register their business to avoid in paying taxation. Hence, the income generated from this business is not included in calculation of the country's GDP.

Table 3.1 Macroeconomic Variables

Variables	Formula	Description	Sources
Inflation	$((B - A)/A) * 100$	The annual inflation rates percentage	World Bank
Gross Domestic Product	$GDP = C + G + I + NX$	It shows the annual growth in Gross Domestic Product percentage	World Bank
Unemployment Rate	$Unemployment\ Rate = \frac{Unemployed}{Civilian\ Labour\ Force}$	Percentage of labour force that is without work but available for and seeking employment.	World Bank

3.1.2.3 Unemployment

Unemployment rate is an important macroeconomic variable. It is the percentage of working population not currently employed or percentage of the labor force actively seeking for employment. Different countries set different benchmark rate of unemployment. A higher percentage in unemployment does not favor as it indicates many people could not find a job to survive. The level of unemployment percentage refers to a nation economic health.

3.2 Macroeconomic Variables Formula

3.2.1 Inflation

Inflation rate calculated by subtracting last year consumer price index (CPI) with current year index and divide with last year number. This result multiply by 100 to get the percentage. $((B - A)/A) * 100$, where “A” is the current index and “B” indicates last year index. Example CPI last year was 180 and today the CPI is 187, then the calculations, $((187-180)/180) * 100 = 3.89\%$ (not the actual rate). “A” would be larger than “B” when the price goes down and the result will be negative number. Thus, it is a negative inflation, which called deflation.

3.2.2 Gross Domestic Product

The GDP calculation is $GDP = C + G + I + NX$.

C = consumption or all private consumer spending within a country's economy, including, durable goods (items with a lifespan greater than three years), non-durable goods (food & clothing), and services.

G = total government expenditures, including, salaries of government employees, road construction/repair, public schools, and military machines.

I = sum of a country's investments spent on capital equipment, inventories, and housing.

NX = net exports or a country's total exports less total imports.

This GDP formula takes the total income generated by the goods and services produced.

3.2.3 Unemployment

The unemployment rate calculation is, $\text{Unemployment Rate} = \text{Unemployed} / \text{Civilian Labor Force}$. To calculate this, the number of employed people should be identified. Then, the people who not considered being in labor force removed. Next, divide the number of unemployed people by the total number of employed and unemployed people. The result multiply by 100 to get the unemployment percentage.

3.3 Research Design

To identify the relation of the governance transparency and corruption on Malaysia economic, panel data has used. Fixed effect model of panel data explored to identify the independent variables towards the corruption of the country. Zidi & Dhifallah (2013) model has followed to observe the relation of governance and corruption on economic of Malaysia. SPSS system used to run the data collected and analysis the result obtains in next chapter (Chapter 4).

3.3.1 Descriptive analysis

Descriptive analysis test on the quantitative data. Its measure the tendency like mean, median and mode. This analysis also provides variance and standard deviation. Moreover, it provides variable lowest and highest value.

3.3.2 Correlation Analysis

Correlation analysis also used in this study to find whether the corruption responds to the independent variables. This analysis usually provides the relationship between the dependent and independent variables. The value indicating 1 or near to 1 shows a stronger relationship among the variable and vice versa.

3.3.3 Multiple Regression Analysis

Panel regression model for panel data analysis used to analyst the coefficient of the variable. This analysis allows to analyst the relationship of two and more variables of interest. This analyst helps to understand how much the dependent variable change when the independent variable change.

3.3.4 Econometrics Framework

To examine the impact of corruption towards the macroeconomic variable the equation of the fixed effects model is analyst used in this study.

$$\text{The equation of } Y = \beta_0 + \beta_1 \text{Inf} + \beta_2 \text{GdpG} + \beta_3 \text{Unem} + \varepsilon_{it},$$

where Y is Corruption index,

Inf = Inflation

GdpG = GDP

Unem = Unemployment

ε_{it} = Error term, the subscript ($i=1..... n$) shows the country and subscript ($t = 1... t$) indicates the time span.

Tosun (2002) analyzed the economic factors resulting in corruption for the 1982-1995 periods of 44 countries through panel data method. The author presented that there was a statistically significant and positive relationship between inflation and corruption.



CHAPTER 4

4.0 Introduction

The data of this study is analysed using fixed panel data using SPSS system. Data of Malaysia corruption index and economy indicator adopted for this study for a period of ten years. Ten years data consist of Year 2009 to 2018. This is also period where the sixth Prime Minister Dato' Sri Najib Razak ruled the country.

4.1 DESCRIPTIVE ANALYSIS RESULT

Table 4.1 Descriptive Statistics

	N	Range	Minimum	Maximum	Mean	Std. Deviation	Variance
GDP	10	8.90	1.50	7.40	4.7300	2.36317	5.585
UNEMP	10	.81	2.88	3.69	3.2260	.23740	.056
INF	10	3.30	.60	3.90	2.1700	1.01877	1.038
Valid N (listwise)	10						

Table 4.1 show the descriptive statistic for the variables used in this study. This table consist of no of observation, range, minimum, maximum, mean, standard deviation values and variance. Overall average mean score of GDP is 8.90. This finding brings a standard valuation of 2.36 and mean value at 4.73. The total average score of unemployment is 0.81, the maximum value is 3.69 and standard valuation indicates 0.237 and with a mean of 3.23.

This finding also shows average score of inflation index at 3.30, maximum value is 3.90.

Standard deviation of this variable is value at 1.02 and mean value of inflation is 2.17

4.2 CORRELATION ANALYSIS RESULT

Table 4.2 Correlations Analysis

		GDP	UNEMP	INF	CORR
GDP	Pearson				
	Correlation	1	.089	.556	.162
	Sig. (2-tailed)		.806	.095	.655
	N	10	10	10	10
UNEMP	Pearson				
	Correlation	.089	1	.123	.722*
	Sig. (2-tailed)	.806		.735	.018
	N	10	10	10	10
INF	Pearson				
	Correlation	.556	.123	1	.175
	Sig. (2-tailed)	.095	.735		.628
	N	10	10	10	10
CORR	Pearson				
	Correlation	.162	.722*	.175	1
	Sig. (2-tailed)	.655	.018	.628	
	N	10	10	10	10

*. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).

Table 4.2 shows the correlation analysis between independent variables and dependent variables. It shows the fixed effect outcomes of correlation among independent variables

GDP, unemployment, inflation and dependent variables of corruption. In this result, the Pearson correlation between corruption and GDP is about 0.162, which indicates there is moderate positive relationship between these variables. The Pearson correlation between corruption and unemployment is 0.722. The relationship between these variables is positive where it indicates that when the corruption index increase, the unemployment increases as well. On the other hand, the Pearson correlation of corruption and inflation is at 0.175 indicates moderate positive relationship.

4.3 REGRESSION ANALYSIS RESULTS

Table 4.3 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.759 ^a	.576	.364	2.32372

a. Predictors: (Constant), UNEMP, GDP, INF

b. Dependent Variable: CORR

Table 4.4 shows a result of R-square at 0.576. This indicates the variation level in the dependent variable, which explained through the independent variables. The value of the R-square at 57.6% are acceptable for this study.

Table 4.4 ANOVA^a

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	44.002	3	14.667	2.716	.138 ^b
	Residual	32.398	6	5.400		
	Total	76.400	9			

a. Dependent Variable: CORR

b. Predictors: (Constant), UNEMP, GDP, INF

Table 4.4 display the variables are significantly at $p < 0.01$ level with 2.716 of F-value. These shows that the variables used for this study and statistically affect the corruption index.

Table 4.5 Coefficients^a analysis and t-statistic

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	76.306	11.041		6.911	.000
	INF	.186	.935	.065	.199	.849
	GDP	.327	.402	.265	.814	.447
	UNEMP	9.252	3.350	.754	2.762	.033

a. Dependent Variable: CORR

The equation of $Y = \beta_0 + \beta_1 \text{Inf} + \beta_2 \text{GdpG} + \beta_3 \text{Unem} + \varepsilon_{it}$ analyst in this study and the result is as below:-

$$Y_{it} = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \mu_{it}$$

$$Y_{it} = \beta_0 + \beta_1 \text{Inflation} + \beta_2 \text{GDP} + \beta_3 \text{Unemployment} + \mu_{it}$$

$$Y_{it} = \beta_0 + 0.186 \text{Inflation} + 0.327 \text{GDP} + 9.252 \text{Unemployment} + \mu_{it}$$

$$tstat = (6.911)(0.199)(0.814)(2.762)$$

$$Prob. = (0.00)(0.849)(0.447)(0.33)$$

$$n=10, R^2=0.759, \text{Adjusted } R^2=0.364$$

4.3.1 Inflation

The inflation variable indicates 0.186 (t-statistic = 0.199) of standardized coefficient. This shows there is a positive relation of inflation with the corruption index. Hence, when the corruption index increase, the inflation also increases. This result shows the Malaysia government corruption has led to increase in the inflation rate for past years. This is due to many high-priced projects has increase the public expenditure which result in higher spending of the government. To support the fun for the projects the government increase the debt, and this increase the inflation. David et al. (2005) states that there exists a relationship between inflation and growth both in the long run and short run. Corruption increase the costs, to cover this cost a borrowing applied where it turns in increasing the inflation rates and risk level of the country.

4.3.2 GDP

Meanwhile, the GDP growth has a positive relationship with the corruption. The variables of GDP growth is 0.327 (t-statistic = 0.814). This explain the GDP growth has positive relation with the corruption index. Hence, when the corruption index increases the GDP growth also increase. This might be as the Malaysia government has interfere to sustain the growth of the economy. One of the reasons for this might be to attract more investors to invest in the country.

Mauro (1995) found that corruption affect economic growth by reducing private investment and possibly by altering the composition of government expenditure, specifically by lowering the share of spending and education.

4.3.3 Unemployment

In addition, the unemployment coefficient is at 9.252 (t-statistic = 2.762) has a negative effect with the corruption index. This confirm that when the corruption increase, the unemployment rate decrease. The high rate of corruption in Malaysia has reduces the quality of public investment which has leads to the increase in unemployment index. Barro (1990) stated that productive and unproductive of government spending will bring a significant impact on overall economic development. In summary all three-independent variable, inflation, GDP and unemployment has a positive relationship with the corruption index of the country for past ten years. This shows the country should take immediate and efficient ways to reduce the corruption rate as it has significant effect on the macroeconomic variables of the country.

CHAPTER 5

5.0 Introduction

This study proposes a model that specifies relationships between corruption and economy of the country. Based on this study, it confirmed that there is a significant relationship between both variables. This study also addresses the issue of controlling and reducing the corruption rate in the country to develop through a good economy level. Moreover, it is an important for the policy makers to focus on the area where it can improve on to make the country a well-developed country.

The purpose of this study is achieved where to identify the the relationship between corruption and economy growth in Malaysia. The objective (1) To analyse the relationship between corruption and the Malaysia macroeconomic factor from the year 2009 to 2018 has result in all independent variables have positive relationship with the corruption index of Malaysia for past ten years. This show the corruption has impact on the macroeconomic variable of the country. Thus, the policy maker should consider this to rectify this issue.

On the other hand, the objective to identify which macroeconomic factors the movement of the corruption rate affects has answered. The increase in corruption index lead to increase in all variables, inflation GDP and unemployment. In contrast, reduction in corruption will results in reduction in the macroeconomic variables.

Wei (2000) suggested that the uncertainty surrounding corruption makes it costlier than an equivalently sized tax. The benefits of panel data are that the issues and biases in corruption

measured partially solved. For an example, not all country has same level of honesty in revealing the corruption cases. However, the difference gets some countries may have populations, which are relatively more honest solved when the panel regression is used to analyst the data.

Wooldridge (2009) standard errors can be adjusted so that they are valid in the presence of heteroscedasticity of an unknown form. It is known that every regression the standard errors are robust, and in appropriate cases, the cluster option is used. Unsurprisingly, the variable inflation, GDP and unemployment has a positive effect by the corruption.

5.1 Discussion

Alm et al. (2016) suggest that corruption may reduce the value of public inspection. In countries characterized by high levels of corruption, it is difficult to reveal illegal acts committed by taxpayers using financial media. Furthermore, high corrupt environment may reduce public scrutiny and decrease the ability official administration to enforce tax legislations and punish taxpayers and their companies involved in aggressive tax practices. This implies a fertile ground for shadow activities and underground economy.

Transparency and accountability in good governance is not nice-to have but a must-have to ensure this nation to prosper and achieve its aims. This paper has written on the effect of high corruption index on the economic growth and importance of corporate governance transparency in reducing the corruption and improving a country's economy.

The corruption in a country related to severe illness. If this illness left untreated, it is likely to progress and be a treat to life. It goes same for a country, where this corruption rate keeps increasing until the economy of the country falls severely. Amundsen (1999) said that corruption was like cancer, striking almost all parts of the society and destroying the function of vital organs.

Corrupt practice is illegal in many countries including Malaysia. Still, the corruption rate of the country is high for past years. One of the reasons is because the corruption cases are related to higher position holder who are politic related individual in the ruling party.

5.2 Recommendation

There are still plenty of room for the improvements on the corporate governance in Malaysia. The current guidelines of MCCG is way better but the rules are not compulsory to be compliant by all the companies in all the sector. This is a weakness of corporate governance which many company's takings advantage to reduce contribution to the country.

The corruption rate has reduced compare to past three years, but the level of the rate is still high and need special attention. Recently many corruption cases which happened past years has been investigated. This indicates the weakness of corporate governance rules and the law of consequences of such illegal act of corruption.

In the efforts to fight the corruption, policymakers should consider in increasing the level of transparency of corporate governance being practice currently. Transparency in financial

reporting enables the stakeholders to evaluate the market before making any investment decision. In addition, higher transparency in the market is a stone mile to increase the confident of investors to invest.

Moreover, transparency has many important functions to the management of the organization. Transparency enables the board of directors to evaluate the performance of the company. Hiding any information on company performance will not disclose the risk of the organization. Thus, the board of directors will not take any action to reduce to risk, which can lead to bankruptcy of the organization.

Corporate governance transparency principle opens information on public spending, government contracts, lobbying activity, development and service provided by the sector. Indeed, strict adherence to the various guidelines provided should enable the progress of development projects and programs to effectively monitored, deviations, problems identified, and corrective measures instituted at the point of occurrence in the project management cycle (Noreha Haji Hashim, 2016). There are many areas to improve on the transparency especially in public sector, as this sector is backbone of the country.

1MDB scandal case is one good example of the important of transparency element of corporate governance. The case only become clearer to the public after it disclosed to the public during the reinvestigation. This was only possible after the new government take charge of the administration. The case involved high-level corruption and misusing million ringgit amounting funds.

The big scale corruption is too complex, and it is comprehensible to the public. Thus, without transparency, the corruption case unable to disclose and investigate as many corruption cases are related to authority who are in higher position who has decision making power in an organization.

There are many steps can be taken in order to improve the transparency in the public sector mainly on the administration. Firstly, the framework of governance should be amended to be more transparent. The standards of the framework should be transparent giving precisely information of the organization performance. The policy maker should make compulsory for all size business to adhere to this framework so that the organization, which has poor governance, can be identify. Hence, exposure on governance and enough training may provide so that the company prosper and reduce corruption rate.

One of the improvements the public sector should consider is amending the current provision and introduce law on illicit enrichment that can tackle issues like 1MDB scandal. Hong Kong Independent Commission against Corruption (ICAC) has power to compel the individual with “tremendous wealth” which does not match the income of his position.

Satar (2018) Proving the offence can be very difficult as the offenders may use common defense such as donation, gift, and wealth inherited from relatives or from other sources of income. Hence, it is the regulators responsibility to prove the offence with available resources.

Lokman & Muhamading (2018) Members of parliament, civil servant and government officials require to declare their assets to the Prime Minister. The current practice ends in

Prime Minister Department and the transparency of the report is unsure. MACC should consider in establish an independent department in public sector to analyses the declaration assets by all level government officials in public sector including Prime Minister. This system can be amended and apply in private sector as well as other non -profitable organization in the country once it is successfully implemented in public sector.

Another recommendation is MACC reporting follow up on the progress of all the corruption cases that been filed previous years. This department then should disclose the summary of the progress of corruption cases quarterly or monthly basis to the public. The summary should include amount as well as the name of the company or individual charged.

Subsequently, this will result confidence among the existing and potential investors in the market as Malaysia practicing transparency and higher integrity of the sector. On the other hand, it sends a warning message to those stakeholders who are trying to misuse their power and responsibility of the consequences of their illegal acts. Pertaining to this, the department should also take into serious consideration on any complaints or statement of corruption by the whistle blower and investigate the matter as soon as possible. This is to avoid the stakeholder to commit more illegal activities during the time delay to investigate the complaints.

Moreover, the department may avoid any further losses of the public funds when act immediately after a complaint lodge with proof of misconduct. It is good action the policymaker who choose not to adopt Dual Class Share (DCS) recently, as this is contra with the existing rules and regulation of corporate governance. Since Singapore, Hong

Kong and Australia has adopt DCS in corporate governance. This will divert investors to county which not practicing DCS. Thus, Malaysia has potential of attracting more investors. Thus, Malaysia should not adopt to Dual Class Share in future.

In addition, lack of transparency is crucial even in a small business transaction. The buyer expects the seller to sell his goods at a fair price for the quality without any hidden agenda. Thus, the seller will expect the buyer to pay on time for the goods purchased. The process or this transaction distorted when corruption exist. The price paid for the same product might be higher as the seller incur higher cost to pay bribe for the product or the buyer could not pay the payment for the goods on time, as the cost of living is high.

In fighting the corruption, the technology should also upgrade. The change should take into consideration in effort of increasing the transparency. The public highly trust and dependent upon transparency. Moreover, combating the corruption also will give a positive signal to investors that Malaysia is heading to a more transparent administration.

Hence, its good Malaysia increase the existing transparency in public sector to give more assurance to the internal as well as external investors. Transparency policy should promote nationwide regardless of the sectors. Bujar (2016) there is limitation in awareness regarding science of decision making in this area, as well as limited training and education. Higher level in transparency in public sector, private sectors, non-profit organizations and learning institutions will help the economy of the country to blossom more.

5.3 Future Studies

A higher level of transparency enables the firms to compete better and gain more market power in the region. This is critical is specify for public sector. It known that the corruption significantly influences the economy in a negative way for public sector and the society bears the costs.

Future research may investigate this area to analyze the corruption in public sector and the effects on the taxpayer and the society as well as the quality conducted by the public sector to identify the transparency level of those projects. This is because the public sector is not profit oriented and has limited fund to develop the facilities in the country.

In addition, future study may choose to analyst channel corruption is particularly harmful. Hence, more resources used in other areas, which promise more effective increases in economic growth. Corruption is not the only factor that affects economic growth (Barro, 1991 and Brunetti, 1997, Lambsdorff, 1999). In addition, future study also may conduct on other factors, which affect the macroeconomic variable, which not discussed in this study.

5.4 Conclusions

To conclude this study, the results shown is pointing to one direction where when the corruption index increase the macroeconomic variable decline and vice versa. Implementing this positive change will ultimately reduce corruption and improve the country's economy at the same time improve internal and external investment. The main

reason for this is all transactions and works will become traceable and transparent and a barrier for any authority to misuse their power and authority for own interest.

Organization for Economic Co-operation and Development (OECD) states, “The corporate governance framework should promote transparent and fair markets, and the efficient allocation of resources. It should be consistent with the rule of law and support effective supervision and enforcement. Good data governance can provide value on the formal rules and important information to detect the likelihood of any corruption and manipulation done (Power, 2013). By combating corruption through the corporate governance principle, the country gives a positive signal to the foreign investors that Malaysia is heading to be a more transparent in its administration.

In order to really be able and change countries for the better, it is not enough to diagnose the problem. North (1987) research should directed at the evolution of the institutions that allowed certain countries to experience low degrees of corruption while others less. However, it is possible that unobservable features, such as changes in institutional quality are hard to measure, affected both macroeconomic variable and corruption. In addition to the conclusion stated above, this thesis has led to suggestions for future research. Finally, this thesis has focused mainly on the effects of corruption, and specifically the macroeconomic variables.

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